

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
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TO SECSTATE WASHDC 6401
INFO AMEMBASSY ASSUNCION
AMEMBASSY BRAZILIA
AMNCONSUL SAL PAULO 2105

C O N F I D E N T I A L RIO DE JANEIRO 2876

E.O. 11652: GDS
TAGS: ENRG, BEXP, BR
SUBJECT: U.S. FIRMS REACT TO ITAIPU DECISIONS

REF: (A) SAO PAULO 1798, (B) RIO 0886

1. CONGEN E/C OFFICER TALKED WITH ROBERT HEINEMAN, VICE PRESIDENT, WESTINGHOUSE, AND JOHN HOLMES, GENERAL MANAGER OF ELECTRIC UTILITY DIVISION, GENERAL ELECTRIC, TO LEARN THEIR REACTIONS TO THE CONTRACT AWARD DECISION BY THE ITAIPU BILATIONAL COMMISSION (REFTEL A). BOTH WERE SHOCKED AND DISMAYED BY AWARD OF ALL EIGHTEEN TURBINE-GENERATORS TO ONE SUPPLIER. WESTINGHOUSE HAD TOLD ITAIPU WHEN THEY WERE INVITED TO BID THAT THEIR CONSORTIUM WAS NOT IN A POSITION TO SUPPLY ALL EIGHTEEN UNITS AND, THEREFORE, IF TAIPU WANTED A SINGLE SUPPLIER, WESTINGHOUSE WAS NOT INTERESTED IN BIDDING. COSTA CALVANTI REPEATEDLY STATED BOTH TO USG REPRESENTATIVES (MOST RECENTLY IN REFTEL B) AND TO THE SS./SOMELED CONSORTIA TAIPU LENTED MORE THAN ONE TECHNOLOGY AND THAT NONE OF THE CONSORTIA
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COULD DELIVER THE EIGHTEEN UNITS IN THE DESIRED TIME FRAME.

2. HOLMES AND HEINEMAN FELT THAT COSTA CAVALCANTI AND THE TECHNICAL PEOPLE AT ITAIPU B NATIONAL HAD BEEN OVERRULED AT A HIGHER LEVEL, I.E. MINISTER OF MINES AND ENERGY UEKI. NEITHER MAN BELIEVED THAT THERE WERE TECHNICAL REASONS FOR REJECTING THEIR PROPOSALS AND/OR ANY SIGNIFICANT DIFFERENCES

IN THE FINANCIAL PACKAGES THAT THE THREE CONSORTIA OFFERED. THEY ATTRIBUTED THE CONTRACT AWARD TO TWO BASIC FACTORS. FIRST, GENERAL BRAZILIAN DISSATISFACTION WITH USG POLICIES VIS-A-VIS BRAZIL; AND, SECOND, INABILITY OF U.S. FIRMS TO COMPETE WITH THE COMMERCIAL PRACTICES OF NON-US FIRMS. THEY BOTH ADMITTED THAT IT IS IMPOSSIBLE TO PROVE EITHER OF THESE ALLEGATIONS, BUT THEY WERE NEVERTHELESS CONVINCED THAT THE ALLEGATIONS WERE TRUE.

3. NEITHER COMPANY IS NOW PLANNING TO LODGE A COMPLAINT OR SEEK USG ACTION. HEINEMAN SAID THAT BEFORE BEING ALLOWED TO BID, EACH CONSORTIUM WAS ASKED TO AGREE, IN WRITING, NOT TO COMPLAIN REGARDLESS OF THE OUTCOME. HOWEVER, HEINEMAN ADDED, WESTINGHOUSE'S JAPANESE PARTNERS WERE CONSIDERING A FORMAL PROTEST AND HAVE ASKED WESTINGHOUSE TO JOIN THEM IF THEY DECIDE TO PROCEED WITH THAT PROTEST. HEINEMAN SAID HIS INITIAL REACTION WAS NOT TO JOIN THE JAPANESE, BUT HE WAS NOW RECONSIDERING. WESTINGHOUSE MANAGEMENT IN U.S. WOULD HAVE TO APPROVE ANY DECISION TO LODGE A PROTEST. BOTH MEN PROMISED TO KEEP CONGEN INFORMED OF FURTHER DEVELOPMENTS.
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